

## **Finance Bill 2017 Press Release - Notes to Editors:**

### **Measures announced on Budget Day:**

Finance Bill 2017 gives effect to the taxation-related measures announced on Budget Day which include:

#### **Income Tax**

- **Key Employee Engagement Programme (KEEP)**

The 'Key Employee Engagement Programme' (KEEP) incentive, introduced in Budget 2018, has the objective of supporting SMEs in Ireland in competing with larger enterprises to recruit and retain key employees. Smaller and/or younger companies with growth potential may not have the cash resources available to offer comparable salary packages to large, established businesses. However, where the employee believes in the growth potential of the firm, and by extension the potential for the company shares to increase in value, remuneration in the form of share options may improve the attractiveness of the SME employment offer.

KEEP will provide for any gain arising on the exercise of qualifying share options to be subject to Capital Gains Tax at the time of disposal of the shares, in place of income tax, USC and PRSI at the time of exercise as is the general treatment for share option gains. This is a targeted relief, subject to State Aid approval, and engagement with the European Commission is ongoing to secure approval.

This scheme complements the Budget 2018 increase to the Earned Income Credit which supports self-employed entrepreneurs and small-business owners across the country. It will help underpin the resilience of the SME sector in the face of BREXIT-related challenges.

- **Mortgage Interest Relief Extension**

Mortgage Interest Relief, which was due to expire for the remaining recipients on 31 December 2017, is being extended through to end-2020 on a tapered basis.

The extension will take the form of the continuation of 75% of the existing relief into 2018, 50% in 2019 and 25% in 2020, and the relief will expire from 2021.

The decision has been made to extend Mortgage Interest Relief to address the potential 'cliff' that current relief holders faced from January 2018 when the relief was due to cease entirely. This extension has been designed to reduce the relief gradually over the three-year taper period.

- **Pre-Letting Expenses for Vacant Residential Properties**

In order to encourage property owners to bring vacant property into the residential rental market, the Bill introduces a new time-limited relief for pre-letting expenses incurred prior to the letting of a residential property that has been vacant for at least 12 months. A cap of €5,000 will apply on qualifying expenses per property, as this is the threshold above which expenditure may potentially qualify for relief under the Home Renovation Incentive (HRI). The relief will be clawed back if the property ceases to be a rented residential property within 4 years of the first letting. The relief will be available for qualifying expenses incurred up to the end of 2021.

This measure was an option put forward by the Working Group on the Tax and Fiscal Treatment of Landlords, established following a commitment in the *Rebuilding Ireland Strategy for the Rental Sector*, whose report was published on Budget Day.

- **Benefit-in-kind**

A 0% rate of Benefit-in-kind on electric vehicles is being introduced. A comprehensive review of benefit-in-kind on vehicles in general will take place in 2018. It is expected that this review will inform decisions for Budget 2019. To further assist the uptake of this more environmentally friendly mode of transport, electricity used in the workplace for charging vehicles will also be exempt from benefit in kind.

### **Capital Gains Tax and Capital Acquisitions Tax**

- **7-year CGT Relief (section 604A of the Taxes Consolidation Act 1997)**

Section 604A of TCA 1997 was introduced in the Finance Act 2012 and extended for a further year in the Finance Act 2013. It provides for a full Capital Gains Tax (CGT) relief from any gain made in respect of the disposal of any property (land or buildings) purchased in the European Economic Area (EEA) between 7 December 2011 and end December 2014 and held for seven years.

Currently, as Section 604A became effective on 7 December 2011, the earliest date that the first properties acquired in the relevant period can qualify for the CGT relief will be 7 December 2018.

The announced purpose of the relief was to help generate activity in the Irish real estate investment sector in 2011 when there were few transactions and activity. It was introduced at the same time as a reduction in commercial stamp duty rates.

In order to enjoy the full relief from CGT the sale must take place on the seventh anniversary of the purchase as any delay beyond this will result in a reduced relief.

The change announced to this relief in Budget 2018 and now being legislated for in section 28 of Finance Bill 2018, will allow the owners of land and buildings purchased between December 2011 and 31 December 2014 to enjoy a full CGT relief if they have owned the land or buildings for at least four years and for no more than seven. This measure seeks to remove the possibility of the relief being a factor in slowing the release of much needed development land onto the market.

- **Solar Panels**

Legislation is being brought forward to allow solar panels on agricultural land to be considered qualifying assets for the purposes of Capital Acquisition Tax (CAT) agricultural relief and Capital Gains Tax (CGT) retirement relief (see sections 29 and 64 of Finance Bill 2018).

Currently gifts or inheritances of agricultural property may qualify for CAT agricultural relief which reduces the taxable value of the property, including land, by 90%. The relief is subject to conditions including the condition that applies in relation to gifts and inheritances taken on or after 1 January 2015 that a beneficiary, or a lessee where the beneficiary leases the agricultural land, must actively farm the land (or lease it to someone who actively farms it) for a period of at least 6 years after taking the gift or inheritance.

There are two conditions attached to the relief which were believed to have been discouraging the take up of options for solar development by farmers and these are now being addressed.

Firstly, in order to qualify for the relief a beneficiary's agricultural property must comprise at least 80% by gross market value of the beneficiary's total property at a particular date. Land under solar panels is not currently deemed agricultural property.

Secondly, as it would not generally be possible to farm any part of the land occupied by solar panels, the change in the use of land from farming to the generation of solar energy within the required 6-year period would result in a withdrawal of some, or all, of any agricultural relief that had been granted, depending on how much of the land is diverted to this alternative use when the change of use took place.

CGT retirement relief is a relief from available to individuals who dispose of all or part of their business or farm.

Currently, disposals of land which is or has been under licence for solar energy production will generally not be eligible for CGT retirement relief. A farmer who has not owned and farmed the land for a 10 year period prior to entering into a licence with a solar energy company will have an exposure to Capital Gains Tax if he or she were to dispose of such land.

The amendments being made in sections 29 and 64 are consistent with the objective of assisting succession and the transfer of farms and on farm diversification for financial sustainability.

They are also consistent with the Programme for Government which contains a commitment to facilitate the development of solar energy projects in Ireland and will help to contribute to the achievement of our climate change targets.

In addition to existing taxation conditions, it will also be a requirement that the amount of farmland that could be used for solar infrastructure will be restricted to 50 per cent of the total farm acreage.

This new condition is to ensure that genuine agricultural activity will continue to be carried out on the farm maintaining the overall objective of agricultural relief in particular.

### **Corporation Tax**

- **Capital Allowances for Intangible Assets**

Following on from the publication of the 'Review of Ireland's Corporation Tax Code' the Bill will provide for the implementation of the recommendation of the Review to introduce an 80% cap on the relevant income against which capital allowances for intangible assets may be deducted in a tax year. For the purpose of clarity and fairness, and to avoid a period of uncertainty, a financial resolution was passed on Budget night in respect of this measure. This 80% cap now applies to claims made in respect of capital expenditure incurred by a company on intangible assets since the 11th October 2017.

### **Stamp Duty**

- **Stamp Duty Applicable to Non-Residential Property**

While the increase in the stamp duty rate on non-residential property transfers from 2% to 6% takes effect from 11 October 2017, transitional arrangements to avail of a 2% rate are provided for purchasers with binding contracts in place before 11 October 2017 and where the instrument for the transfers are executed before 1 January 2018. The instrument must contain a statement to this effect in such form as Revenue specifies.

In relation to land purchased for the development of housing, the Minister indicated in his Budget statement that a stamp duty refund scheme would be introduced in view of the housing supply challenge. This scheme will be brought forward during committee stage of the Finance Bill.

- **Consanguinity Relief**

In addition to extending the consanguinity relief for another 3 years and fixing the associated stamp duty rate at 1%, the Bill provides that the age rule for this relief will be removed. This means that it will be possible for all gifts and sales of farmlands to closely related family members, who do not qualify for the 100% exemption available under the Young Trained Farmer scheme, to benefit from consanguinity relief at a stamp duty rate of 1%.

## **Measures not announced on Budget Day:**

Some of the additional measures in Finance Bill 2017, not announced on Budget Day, include:

### **Income Tax**

- **Agri-Tax Review**

Minister Donohoe has announced that officials from the Departments of Finance and Agriculture will commence work on assessing progress on the review of tax measures in the Agriculture sector, which was last completed in 2014. This assessment will also concentrate primarily on the issue of income stabilisation and the issue of information collection and management to comply with EU State Aid reporting requirements. The work will be conducted in line Department of Finance Tax Expenditure Guidelines. The process will be commenced following completion of Finance Bill 2017 and is, of course, all the more important having regard to the current economic context in which the sector operates as it prepares for the challenges posed by Brexit.

- **PAYE Modernisation**

The PAYE Modernisation project will result in the move to a real-time PAYE system from January 2019. The measures being introduced under this heading are mostly technical in nature and are being put in place to help ensure that appropriate preparations can be made in a timely way by all concerned.

### **Corporation Tax**

- **Companies Act 2014**

The Companies Act 2014, which came into effect on 1 June 2015, consolidated and amended existing company law statutes. As a result, a number of amendments are required to be made to the Taxes Consolidation Act 1997 (TCA 1997), Stamp Duty Consolidation Act 1999 (SDCA 1999) and Capital Acquisitions Tax Consolidation Act 2003 (CATCA 2003). The Bill provides for amendments relating to (i) the new Mergers and Divisions procedures, (ii) new company types and their legal requirements and (iii) outdated references to the Companies Acts.

- **Interest Relief**

Section 247 TCA 1997 provides for tax relief for companies in respect of interest paid on funds borrowed to invest in or lend to other companies. The Bill legislates for an existing Revenue practice and will allow for interest relief to be claimed where a purchasing company acquires shares in a holding company that holds shares indirectly in a trading company but also where the purchasing company on-lends to a holding company that holds shares indirectly in a trading company. Consequential technical amendments to section 247 TCA 1997 and section 249 TCA 1997 are also included in Section 21 of the Bill.

## **Stamp Duty**

- **Residential leases**

Residential leases for a term not exceeding 35 years and where the rent does not exceed €30,000 per annum are exempt from stamp duty. In previous years the threshold was increased in response to rising rents with the last such increase taking place in 2008. The Finance Bill increases the threshold for the application of stamp duty to residential leases to €40,000 per annum, which should ensure that the majority of renters are under the threshold.

### **Next steps:**

Finance Bill 2017 Dáil Second Stage begins Tuesday 24<sup>th</sup> October 2017.

### **Timing of the Finance Bill:**

Under the regulations known as the “Two-Pack” which were formally adopted on 30th May 2013, a common budgetary timeline was introduced for all Euro Area member states. In light of these requirements, the Government decided, from 2013 onwards, to bring Budget Day forward from the first week in December to on or before 15th October. This means that Budget 2018 was presented and published on Tuesday, 10th October this year.

The Government also decided that the Finance Bill should complete its passage through the Oireachtas by 31<sup>st</sup> December each year. This means also that, as this Finance Bill is published in 2017, it is called “Finance Bill 2017” even though it relates to Budget 2018.

Details of all the various measures in Finance Bill 2017 are provided in the Appendix to the Press Release. The Appendix is also available, along with the text of the Bill, the Explanatory Memorandum, the Press Release and these Notes to Editors at [www.finance.gov.ie](http://www.finance.gov.ie)

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